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Report Highlights: In November 2004, China and the US signed an import protocol for US bovine semen and embryos. Before actual trade begins, China has requested an inspection by Chinese officials of each embryo and semen collection facility. China's import suspension on other bovine products, including live cattle, beef products and non-protein tallow, remains in place. During 2005, technical meetings between Chinese and US experts are the next step on US beef access. China's cattle imports shot up 232 percent from a year ago to 110,000 head driven by strong demand by the dairy sector. US pork exports last year increased over 100 percent to 40,000 MT, and the forecast is for continued growth in exports.

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Executive Summary

On September 28, 2004, China lifted the import suspension on bovine semen, embryos and non-protein tallow from BSE countries--including the United States. Then in November 2004, the quarantine agencies of the two countries held the first US-China animal quarantine bilateral meeting in Hawaii. At that meeting, China and the US signed an import protocol for US bovine semen and embryos. However, before imports are resumed, China has requested that Chinese officials inspect each collection center. China's ban on live cattle and beef still remains in place.

It is uncertain when the cattle and beef market will be re-opened in China. Chinese officials insistence that China still remains free of BSE indicates they have serious concerns about the transmission of the disease. In order to press for beef access, the USDA has proposed to China that technical experts from both sides (USDA's APHIS and FSIS on the US side and AQSIQ and MOA on the Chinese side) meet to continue exchanging information on BSE risk and meat safety.

During 2005, no further tariff deductions are scheduled for livestock products. China's commitment when joining the WTO for bound tariff deductions on meat products ended in 2004. The value added tax (VAT), 13 percent, will also remain the same in 2005. This year, for the first time, China listed its export tax rebate in the 2005 Customs Tariff Book. A five percent tax rebate is provided to Chinese exporters of live cattle and beef and a 13 percent rebate is provided to Chinese exporters under HS Code 0203.29.

China's live cattle imports during January to November 2004, more than doubled the total number of the previous year. Australia and New Zealand were the only suppliers, and both countries appear positioned to dominate this market in 2005.

On the production side, China's livestock output value during 2004 is estimated at \$121 billion, a record level. Sales of livestock products represented 39 percent of farmers' per capita cash income from selling agricultural products in 2004. The Chinese Government continues to emphasize livestock as an important source of farmers' income. This government support, combined with the agricultural tax reduction, will provide strong incentives to China's beef and pork producers in 2005.

Last year, pork was the only US meat product that could be exported to China due to China's ban on US cattle and beef for BSE and US poultry products for avian influenza. US exports to China increased 133 percent to 40,000 MT.

Cattle and Beef

Post forecasts China's beef production to increase 6 percent in 2005

China's cattle and beef industry is forecast to continue expanding in 2005 due to strong consumer demand—particularly as the 2008 Olympic games approach. Post forecasts China's beef production at 7 MMT, a 6 percent increase from last year, and end-of-year cattle inventories to increase 2 percent to 142.6 million head as China stepped-up the number of cattle slaughtered. Beef carcass weight in 2005 is expected to remain at 134 kilograms (kg)—about 197 kg lower than the average carcass weight in the US.

Cattle and beef production is moving gradually towards the more efficient production areas in the 7 provinces of Central China and the Northeast. The Ministry of Agriculture (MOA) has termed these areas “advantageous beef development areas”, and the regions accounted for over 60 percent of China's total beef production last year. Better production conditions helped improve the slaughter rate. This is expected to continue in 2005.

Inconsistent beef and dairy cow breeds remain the chief constraint to increasing China's beef production. China's resulting demand for dairy and beef cattle genetics is illustrated by the doubling of year-on-year breeding cattle imports during 2004. If the import protocols with China for bovine genetics can be implemented in 2005, demand for US products is forecast to be extremely high.

BSE Surveillance Efforts

To address the threat of BSE in China, the Ministry of Agriculture oversees domestic BSE surveillance efforts. According to Chinese officials, China tests approximately 4,500 head per year, though China slaughters about 50 million cattle each year. Officials indicate they collect about 150 samples a year for BSE testing from each province in China. The five types tested are normal, downer, stock, dead and slaughtered cattle. Seventy percent of samples from 26 provinces are tested at MOA's national BSE lab in Qingdao, Shandong Province. The other 30 percent are from the Northeast, Inner Mongolia and Beijing, and are tested at the China Agricultural University lab in Beijing. Other institutes or university lab facilities may also undertake BSE tests for their own research purpose.

China's meat production target exceeded, but beef growth even faster

When China made its tenth five year (2000-2005) and long term (2005-2015) plans, the country targeted that by the end of 2005, total meat production would reach 70 MMT, of which beef and mutton would comprise 9.9 MMT, pork 45.5 MMT and poultry meat 14 MMT. Percentage-wise, beef and mutton ratio would rise to 14.1 percent, poultry meat a rise to 20 percent, while the pork meat ratio would fall to 65 percent. By 2015, total meat production would increase to 90 MMT, of which beef and mutton be 13.5 MMT, pork 55.8 MMT and poultry meat 19.8 MMT. In 2015, the beef and mutton ratio would rise to 15 percent and poultry meat to 22 percent, while the pork ratio would continue falling to 62 percent.

The outbreak of avian influenza in China during January to March 2004 induced many Chinese consumers to switch from poultry to red meat consumption. Official meat data for 2004 is not yet available, but according to the industry, total meat production last year was in the range of 72-73 MMT. The year-on-year increase of beef was 10 percent, pork 4.8 percent and poultry was flat. During 2005, the risk of a new AI outbreak, coupled with more government support to develop grass-fed animals in order to reduce the demand for feed grains, could drive the beef growth pace even higher than the level of 2004.

Although China's beef and veal imports dropped considerably in 2004, the import loss was offset partly by larger domestic beef production and increased imports from New Zealand and Brazil. As a result, per capita beef consumption still increased slightly.

Wholesale and retail beef prices forecast to remain high in 2005

According to MOA data, during 2004 wholesale beef prices increased 1.8 percent and retail prices increased 7.5 percent as the result of strong domestic demand, overall increased feed prices and higher international beef prices. Assuming there are continued increases in domestic beef production and strong consumer demand, the Chinese Government is unlikely to resume state reserves of live animals—which are subsequently sold on the market--since beef prices in 2005 may not exceed the level of 2004.

Food safety a central government priority; China's "zero" tolerance for pathogens on imported meat products remains a challenge for suppliers

In response to the China's Central Government mandate to strengthen food safety, last December 7 Chinese agencies, including AQSIQ, the State Standardization Committee, the Ministry of Agriculture, the National Development and Reform Commission, the Ministry of Commerce, the Ministry of Health and the State Food and Drug Administration, initiated Food Standard Development Programs. The objective is to make equivalent the existing food standards at the national, industry and local levels. The program will be completed in two years. Chinese officials forecast that the adoption of international standards for processed food safety standards in China will increase from 23 percent to 55 percent.

USDA continues to encourage China to revise its regulation for a zero tolerance for E. coli and Salmonella on imported, raw meat and poultry. This regulation impacts access for any imported product at the inspection station where the pathogens are detected.

Effective in January 2005, China added 10 food products, including meat and dairy products, to the Market Permit System. Adding to the other five products enforced in 2004, there are altogether 15 products. Before entering the domestic market, these products must have a "QS" (food safety) mark on the packaging approved by AQSIQ. The new products have a 6-month grace period before enforcement begins on July 1, 2005.

Live cattle imports continue increasing, but pace expected to slow

China's live cattle imports in 2005 are forecast to increase 25 percent from last year to 150,000 head. Imports through November 2004 already jumped 232 percent from 35,660 head to 118,487 head over the same period. Most imports are breeding dairy cattle, reflecting China's drive to improve genetic stocks, but also because average import prices were slightly lower than a year ago. As China's economy grows at about 9 percent annually, consumers demand more dairy product and animal proteins. Given China's low ratio of high quality dairy and beef cattle, strong import demand for breeding animals is forecast to continue this year, but at a slower pace than last year. China's own production is improving and the increased bank interest rates from last November may encourage farmers to reduce spending.

Australia loses live cattle import share to New Zealand--Mexico a new supplier

Australia is still the largest supplier of live cattle to China, but its export share fell to New Zealand from 81 percent to 53 percent last year during January to November 2004. A smaller crop due to bad weather last year constrained Australian exports. Also, the price per

head was higher than animals from New Zealand. Mexico established itself as a new supplier to China last year, although its share is almost nothing with 8 head exported.

Post forecasts beef imports recovering in 2005

As a result of China's successful efforts to source beef from countries other than Canada and the US, during 2005 China's beef and veal imports increase from 10,000 MT in 2004 to 15,000 MT. However, this level is still below the import level of 2003. Beef products and veal are supplied to high-end users such as luxury hotel chains. The limited volume of high quality beef produced in China translated to domestic supply lagging demand. Several countries in South America and other places reached agreement last year to export meat to China. Based on higher expectations of China's imports, FAS Beijing adjusted upwards China's import number in the attached PS&D table.

The US was China's largest beef supplier before the BSE case in December 2003 resulted in China's import suspension. During 2003, China's imports of US beef and variety meats (including re-exports from Hong Kong to China) were about \$100 million. Australia replaced the US after China banned US beef, but Australia's export share did not increase since imported New Zealand and Brazilian beef compensated for a portion of the supply shortfall. The competitive prices of both countries are one reason.

China's cattle exports in 2005 forecast to rise 10 percent up, while beef exports will rise 28 percent

Based on the update World Trade Atlas, post adjusted China's export forecasts number for live cattle in 2005 up from 55,000 head in the previous annual report to 72,000 head in the current report. Post also adjusted China's beef export forecast number for 2005 up from 50,000 MT to 72,000 MT.

The export increase is due to demand in all of China's export destinations. Additionally, following the ban placed on imported US and Canadian beef products by many importing countries, the world supply of beef has fallen. As a result, although China's export beef price increased 20 percent in 2004, it was still cheaper compared with the average international price. The lower US dollar exchange rate in 2004 did not impact China's exports, since China is using a fixed exchange rate between USD and RMB.

PSD--Cattle

PSD Table**Country****China, Peoples
Republic of****Commodity****Animal Numbers,
Cattle**

(1000 HEAD)

	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA	Post	USDA	Post	USDA	Post Estimate	[New]
	Official	Estimate	Official	Estimate	Official		
	[Old]	[New]	[Old]	[New]	[Old]		
Market Year Begin		01/2003		01/2004		01/2005	MM/YYYY
Total Cattle Beg. Stks	130848	130848	134672	134672	138712	138728	(1000 HEAD)
Dairy Cows Beg. Stks	6873	6873	7587	8932	8350	11500	(1000 HEAD)
Beef Cows Beg. Stocks	60501	60501	62830	62830	65340	65340	(1000 HEAD)
Production (Calf Crop)	51654	51654	54649	54649	54819	57381	(1000 HEAD)
Intra EC Imports	0	0	0	0	0	0	(1000 HEAD)
Total Imports	50	50	100	120	150	150	(1000 HEAD)
TOTAL Imports	50	50	100	120	150	150	(1000 HEAD)
TOTAL SUPPLY	182552	182552	189421	189441	193681	196259	(1000 HEAD)
Intra EC Exports	0	0	0	0	0	0	(1000 HEAD)
Total Exports	51	50	55	59	60	65	(1000 HEAD)
TOTAL Exports	51	50	55	59	60	65	(1000 HEAD)
Cow Slaughter	0	0	0	0	0	0	(1000 HEAD)
Calf Slaughter	0	0	0	0	0	0	(1000 HEAD)
Other Slaughter	47030	47030	49914	49914	53051	53051	(1000 HEAD)
Total Slaughter	47030	47030	49914	49914	53051	53051	(1000 HEAD)
Loss	799	800	740	740	500	500	(1000 HEAD)
Ending Inventories	134672	134672	138712	138728	140070	142643	(1000 HEAD)
TOTAL DISTRIBUTION	182552	182552	189421	189441	193681	196259	(1000 HEAD)
Calendar Yr. Imp. from U.S.	2	2	0	0	0	0	(1000 HEAD)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 HEAD)

PSD--Beef

PSD Table**Country****China, Peoples
Republic of
Meat, Beef
and Veal****Commodity**

(1000 MT CWE)(1000 HEAD)

	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA	Post	USDA	Post	USDA	Post Estimate	[New]
	Official	Estimate	Official	Estimate	Official		
	[Old]	[New]	[Old]	[New]	[Old]		
Market Year Begin		01/2003		01/2004		01/2005	MM/YYYY
Slaughter (Reference)	47030	47030	49914	49914	53051	53051	(1000 HEAD)
Beginning Stocks	0	0	0	0	0	0	(1000 MT CWE)
Production	6305	6305	6683	6683	7110	7110	(1000 MT CWE)
Intra EC Imports	0	0	0	0	0	0	(1000 MT CWE)
Total Imports	12	25	10	10	15	15	(1000 MT CWE)
TOTAL Imports	12	25	10	10	15	15	(1000 MT CWE)
TOTAL SUPPLY	6317	6330	6693	6693	7125	7125	(1000 MT CWE)
Intra EC Exports	0	0	0	0	0	0	(1000 MT CWE)
Total Exports	43	43	45	56	50	72	(1000 MT CWE)
TOTAL Exports	43	43	45	56	50	72	(1000 MT CWE)
Human Dom. Consumption	6274	6287	6648	6637	7075	7053	(1000 MT CWE)
Other Use, Losses	0	0	0	0	0	0	(1000 MT CWE)
TOTAL Dom. Consumption	6274	6287	6648	6637	7075	7053	(1000 MT CWE)
Ending Stocks	0	0	0	0	0	0	(1000 MT CWE)
TOTAL DISTRIBUTION	6317	6330	6693	6693	7125	7125	(1000 MT CWE)
Calendar Yr. Imp. from U.S.	19	19	0	0	0	0	(1000 MT CWE)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT CWE)

China Import Statistics								
UDG: Live Cattle, HS 0102								
Year To Date: January - November								
Partner Country	Unit	Quantity			% Share			% Change 2004/2003
		2002	2003	2004	2002	2003	2004	
World	NO	10,229	35,660	118,495	100	100	100	232.29
Australia	NO	9,220	28,908	63,772	90.14	81.07	53.82	120.6
New Zealand	NO	-	5,719	54,715	0	16.04	46.17	856.72
Mexico	NO	-	-	8	0	0	0.01	0
United States	NO	256	1,022	-	2.5	2.87	0	-100
Canada	NO	753	11	-	7.36	0.03	0	-100

China Import Statistics								
UDG: Live Cattle, HS 0102								
Year Ending: December								
Partner Country	Unit	Quantity			% Share			% Change 2003/2002
		2001	2002	2003	2001	2002	2003	
World	NO	2,775	11,432	50,007	100	100	100	337.43
Australia	NO	2,231	9,280	41,179	80.4	81.18	82.35	343.74
New Zealand	NO	-	-	7,795	0	0	15.59	0
United States	NO	317	256	1,022	11.42	2.24	2.04	299.22
Canada	NO	227	1,896	11	8.18	16.59	0.02	-99.42

China Import Statistics								
UDG: Beef and Veal,								
Year To Date: January - November								
Partner Country	Unit	Quantity			% Share			% Change 2004/2003
		2002	2003	2004	2002	2003	2004	
World	T	9,749	7,786	3,371	100	100	100	-56.71
Australia	T	1,956	2,098	2,080	20	26.95	61.7	-0.88
New Zealand	T	200	101	825	2	1.3	24.48	715.06
Brazil	T	24	467	422	0	6	12.52	-9.71
United States	T	7,294	5,068	41	75	65.09	1.21	-99.2
Uruguay	T	-	-	2	-	0	0.07	0
China	T	-	-	1	-	0	0.02	90.73
Taiwan	T	2	5	-	0	0.06	0.01	-96.2
Germany	T	-	-	-	-	0	0	0
Korea South	T	-	1	-	-	0.01	0	-98.52
Thailand	T	7	6	-	0	0.07	0	-100
Japan	T	-	-	-	-	0	0	-100
Singapore	T	-	-	-	-	0	0	0
South Africa	T	1	-	-	0	0	0	0
France	T	-	-	-	-	0	0	0
Canada	T	265	39	-	3	0.5	0	-100

China Import Statistics								
UDG: Beef and Veal,								
Year Ending: November								
Partner Country	Unit	Quantity			% Share			% Change 2003/2002
		2001	2002	2003	2001	2002	2003	
World	T	5,356	10,157	9,526	100	100	100	-6.22
United States	T	3,043	7,578	6,535	56.83	74.61	68.61	-13.76
Australia	T	2,029	2,077	2,282	37.89	20.45	23.95	9.87
Brazil	T	-	24	467	0	0.24	4.91	1844.61
Canada	T	43	265	118	0.81	2.61	1.24	-55.5
New Zealand	T	185	202	111	3.45	1.99	1.17	-44.9
Thailand	T	5	7	6	0.09	0.07	0.06	-13.9
Taiwan	T	-	2	5	0.01	0.02	0.05	175.59
Korea South	T	-	1	1	0.01	0.01	0.01	-37.25
China	T	17	-	-	0.31	0	0	0
Japan	T	33	-	-	0.62	0	0	0
Germany	T	-	-	-	0	0	0	0
Argentina	T	-	-	-	0	0	0	0
Colombia	T	-	-	-	0	0	0	0
France	T	-	-	-	0	0	0	-100
Singapore	T	-	-	-	0	0	0	-100
South Africa	T	-	1	-	0	0.01	0	-100
Switzerland	T	-	-	-	0	0	0	0

World Trade Atlas
Product Group
Hong Kong Beef Re-Exports
Quantity

January - November					% Change
Rank	Origin	- KG - 2002	- KG - 2003	- KG - 2004	- 04/03 -
0	The World-	9,226,134	7,909,884	3,694,551	-53.29
1	Brazil	1,328,476	904,893	1,193,171	31.86
2	New Zealand	382,489	538,091	1,019,848	89.53
3	India	235,880	603,348	308,652	-48.84
4	Ireland	1,176,034	757,285	244,224	-67.75
5	United States	5,442,198	3,978,733	238,959	-93.99
6	Canada	77,647	98,181	194,300	97.9
7	Argentina	-	507,536	159,270	-68.62
8	Other	583,410	521,817	336,127	-35.59%

World Trade Atlas
Product Group
Hong Kong Beef Re-Exports
Quantity

January - December					% Change
Rank	Origin	- KG - 2001	- KG - 2002	- KG - 2003	- 03/02 -
0	The World-	5,460,652	11,099,653	8,663,393	-21.95
1	United States	3,327,678	6,521,817	4,284,930	-34.3
2	Brazil	403,516	1,350,331	941,257	-30.29
3	Ireland	207,096	1,274,515	905,249	-28.97
4	India	329,997	235,880	715,800	203.46
5	New Zealand	406,545	996,919	602,173	-39.6
6	Argentina	80,946	-	507,536	0
7	Australia	378,387	291,165	213,648	-26.62
8	Canada	198,825	77,647	123,201	58.67
9	Other	127,662	351,379	369,599	5.19%

China Export Statistics								
UDG: Live Cattle, HS 0102								
Year To Date: January - November								
Partner Country	Unit	Quantity			% Share			% Change 2004/2003
		2002	2003	2004	2002	2003	2004	
World	NO	50,716	44,838	54,129	100	100	100	20.72
Hong Kong	NO	44,224	39,662	42,937	87.2	88.46	79.32	8.26
Jordan	NO	-	-	6,000	0	0	11.08	0
Macau	NO	4,768	4,629	4,838	9.4	10.32	8.94	4.52
Korea North	NO	17	449	330	0.03	1	0.61	-26.5
Myanmar	NO	674	-	24	1.33	0	0.04	0
Thailand	NO	-	98	-	0	0.22	0	-100
Malaysia	NO	1,033	-	-	2.04	0	0	0

China Export Statistics								
UDG: Live Cattle, HS 0102								
Year Ending: December								
Partner Country	Unit	Quantity			% Share			% Change 2003/2002
		2001	2002	2003	2001	2002	2003	
World	NO	57,171	58,280	50,645	100	100	100	-13.1
Hong Kong	NO	50,674	49,163	44,929	88.64	84.36	88.71	-8.61
Macau	NO	5,174	5,335	5,169	9.05	9.15	10.21	-3.11
Korea North	NO	1,323	17	449	2.31	0.03	0.89	2541.18
Thailand	NO	-	-	98	0	0	0.19	0
Malaysia	NO	-	3,091	-	0	5.3	0	-100
Myanmar	NO	-	674	-	0	1.16	0	-100

China Export Statistics								
UDG: Beef and Veal,								
Year To Date: January - November								
Partner Country	Unit	Quantity			% Share			% Change 2004/2003
		2002	2003	2004	2002	2003	2004	
World	T	23,785	22,406	31,838	100	100	100	42.09
Hong Kong	T	12,856	12,703	14,166	54.05	56.69	44.49	11.52
Japan	T	3,062	4,611	7,459	12.87	20.58	23.43	61.75
Korea South	T	1,653	1,482	2,794	6.95	6.62	8.77	88.48
Russia	T	1,726	591	1,435	7.26	2.64	4.51	142.91
Kuwait	T	483	266	1,404	2.03	1.19	4.41	426.89
Malaysia	T	1,087	929	1,110	4.57	4.15	3.49	19.49
Indonesia	T	828	948	868	3.48	4.23	2.73	-8.44
United Arab Emirates	T	568	393	665	2.39	1.75	2.09	69.25
Jordan	T	-	10	483	0	0.04	1.52	4687.6
Korea North	T	172	87	461	0.72	0.39	1.45	431.01
Lebanon	T	36	12	363	0.15	0.05	1.14	2975.37
Singapore	T	98	87	129	0.41	0.39	0.41	48.04
Macau	T	54	61	101	0.23	0.27	0.32	65.43
Other	T	1,163	226	401	4.89	1	1.25	-483.67

UDG: Beef and Veal,								
Year Ending: December								
Partner Country	Unit	Quantity			% Share			% Change 2003/2002
		2001	2002	2003	2001	2002	2003	
World	T	37,884	26,764	25,797	100	100	100	-3.61
Hong Kong	T	16,716	14,390	14,014	44.12	53.77	54.32	-2.61
Japan	T	5,510	3,768	5,385	14.54	14.08	20.87	42.91
Korea South	T	1,777	1,903	1,704	4.69	7.11	6.61	-10.45
Russia	T	1,658	1,812	1,169	4.38	6.77	4.53	-35.48
Indonesia	T	728	947	1,098	1.92	3.54	4.26	15.9
Malaysia	T	1,021	1,154	1,014	2.7	4.31	3.93	-12.07
United Arab Emirates	T	310	632	509	0.82	2.36	1.97	-19.48
Kuwait	T	767	509	363	2.03	1.9	1.41	-28.57
Korea North	T	456	196	105	1.2	0.73	0.41	-46.26
Singapore	T	134	135	105	0.35	0.5	0.41	-21.81
Macau	T	171	71	79	0.45	0.26	0.31	11.28
Nigeria	T	-	38	75	0	0.14	0.29	100
Brunei Darussalam	T	18	19	62	0.05	0.07	0.24	231.67
Other	T	8,620	1,190	115	22.73	4.47	0.44	-90.16

CHINA'S RETAIL BEEF PRICES ON AVERAGE

(RMB/KG, USD 1=8.27)

	2002	2003	2004	% Change 2004/03
January	14.00	15.26	16.35	7.14%
February	14.00	15.29	16.18	5.82%
March	14.21	15.03	16.24	8.05%
April	13.72	15.02	16.28	8.39%
May	13.91	15.91	16.32	2.58%
June	13.96	15.08	16.36	8.49%
July	13.94	15.04	16.36	8.78%
August	14.16	15.07	16.54	9.75%
September	14.25	15.26	16.71	9.50%
October	14.29	15.43	16.81	8.94%
November	14.70	15.87	16.87	6.30%
December	14.77	15.97	16.93	6.01%

Source: The Ministry of Agriculture

Swine and Pork

China's swine and pork production forecast to rise in 2005

China's pork production for 2005 is forecast to increase 4.8 percent from 47.3 MMT in 2004 to 49.6 MMT, slightly up from the previous forecast of 4.5 percent in the 2004 annual report. Post also adjusted upwards the pig crop production numbers in the PSD table from the previous forecast of 619 million head to 651 million head, and for 2004 from the previous forecast of 608 million head to 624 million head, based on NSB recently published 2003 slaughter and average carcass weight numbers.

A reversal of the downward trend for pork's share of total meat production continued during 2004 driven by higher swine and pork prices. According to MOA data, the average wholesale pork price in 2004 was \$1.61 per kg, up 16 percent from a year ago. The average retail pork price in 2004 was \$1.64 per kg, up 29 percent from 2003. Hog prices on average in 2004 climbed 45 percent.

China's swine and grain conversion in the third quarter of 2004 was 1:6.49 (i.e., the price of 1 kg of hog compared with 1 kg of corn) well above the profitable ratio of 1:5.5, encouraging farmers to increase sows numbers. The sow ratio (i.e., the number of sows in the swine population) in 2005 is forecast at 9.8 percent of total pig inventory, slightly higher than the previous year. China's desire ratio is 8 percent. These factors would lead to pork production increases continuing in 2005 at least at the same pace of 2004.

China's pork production increase is not the result of increased carcass weight, but a higher ratio of swine slaughtered. China's average pork carcass weight in 2005 is forecast to remain 76 kg as in the previous year. It is about 12 kg lower than the average carcass weight in the US. More use of protein feed has resulted in shortening swine fattening period.

Scale of China's swine operations expanding

Although small-sized pig farms still account for a larger part of swine production, backyard production has been decreasing, while commercial and scale production has been expanding. Provinces have different definitions of the scale of commercial farms. For example, Sichuan Province, the largest swine province, considers a farm with 100 head, instead of 50 head in the past, a large-scale farm. Generally, 50-head size is considered a professional commercial farm. (See the table on page 17 for a picture of the scale of China's swine industry.) The trend of larger sized operations with better efficiency will continue in 2005.

China's pork share will reduce from 65 percent in 2005 to 63 percent in 2010. However, it is hard to say and the progress will also very slow. Pork is still the main meat for China, especially in the countryside.

Increased pressure on small-scale swine farmers

Due to chronic low efficiency and profitability, many Chinese farmers are abandoning pig culture in their backyards. Increased production costs, such as feed grains, stricter land use laws, higher requirements of environmental protection and disease control, have driven many farmers away from swine production. Also, new employment has made it possible for rural labors to move into urban areas.

The rising price of pork is the only factor encouraging small-scale farmers to remain in the business. After the SARS outbreak in 2003 and AI in 2004, many Chinese consumers switched to pork. This increased demand helped push pork prices further up. In 2004,

China's swine and pork prices were high throughout the year. Farmer net earnings per swine were RMB 200-250 in 2004, RMB 50 more than the previous year.

Pork prices in China are forecast to stabilize in 2005. One reason is government policies may constrain rises in swine and pork prices. In 2004, the Government started providing direct cash subsidies to grain farmers that reversed the trend of grain decreases. Further, during 2004, 22 provinces out of 31 phased out agricultural taxes. The swine slaughter tax on farmers was also cancelled. These tax policies and larger grain crops are expected to help stabilize feed grain prices, thus benefiting swine and pork production. Further, high meat prices have impacted low-income consumers. The government resumed state reserves of live animals—subsequently sold on the market—in 2004. MOFCOM has published a recommended standard of live animal producing bases for state meat reserve. All these factors will constrain pork prices.

Swine genetic improvements—continued export opportunity for US suppliers

According to the industry, China's high quality, lean pork swine of the total slaughtered comprises only 25-30 percent. Most swine varieties at backyards or small farms are not high yielding, resulting in low productivity. Per capita sow produces 1.7 litters a year with a survival of only 70-85 percent, while in the US per capita sow produces 2.3 litters with a survival of 95 percent. As living standards improve, Chinese consumers are demanding healthier, leaner pork products. The US surpassed Canada to become the largest supplier to China in 2004. This potential could continue in 2005, because FMD diseases in some parts of the world have constrained their exports.

Increased use of compound feed benefits China's swine industry

The MOA estimates China's compound feed production in 2005 at 80-100 million MT, concentrated feed at 15-18 MMT and premix feed at 3-5 MMT. After the AI outbreaks and drop in feed demand from the poultry sector ended in March 2004, China's feed production recovered quickly to compensate for the production losses during the AI period. China's average annual feed production increased 20.95 percent during 1980-2003.

The current compound feed use ratios in China among the poultry, swine, fishery and ruminant sectors are 52%, 31%, 11% and 6%, respectively. Large-scale and commercial farms prefer to use compound feed. Feed and pork conversion has changed from 3.3:1 from ten years ago to 3.0:1. The swine-fattening period has been shorted to about 40 days.

According to the feed industry, corn usage in feed accounts for 60-70 percent for fattening swine. Of the other 30 percent, soy meal accounts for 70 percent, cotton and rape meal accounts for 20 percent, and wheat and fish meal accounts for 10 percent. Given the fact that China is short of feed protein resources, 70 percent of soybeans for soy meal production, 70 percent of fish meal and 50 percent of lysine supplies must be imported. Good swine production and constraint domestic feed protein supply will translate into continued large imports of soybean and soy meal during 2005 and beyond.

Pork consumption forecast 4.8 percent up from 47 to 49 million MT in 2005

Post adjusted China's pork consumption forecast for 2005 in the PSD table slightly up from 47.19 million MT, in the previous annual livestock report, to 49.26 million MT based on higher expectation of pork production. The year-on-year change in 2004 was because pork consumption substituted for poultry meat during the AI outbreak period. As poultry consumption is still fragile due to potential risks of further AI outbreaks, pork consumption will continue to be strong in 2005.

Total pork imports in 2004 fell slightly due to AI impact, but US exports rose over 100 percent, and the forecast for 2005 is continued growth

Post revised China's pork import number in the PSD table from 152,000 MT in to 138,000 MT for 2004, and from 138,000 MT to 136,000 MT for 2005. The reason is due to re-adding Hong Kong re-exports to China. Previously, Hong Kong re-exports were unavailable when the PSD table was done for the previous annual report.

Overall, China's pork imports fell in 2004 due to increased domestic pork production, stronger import demand for pork variety meats and the impact of avian influenza (i.e., issuance of import permits and transportation slowdowns). The sharp increase in pork variety meat imports in 2004, despite higher prices, was due to consumer demand and China's need to substitute reduced beef and poultry supplies as a result of BSE and avian influenza factors.

To more accurately calculate US pork exports to China in 2004, FAS Beijing switched to US export statistics (instead of China's reported imports) and added Hong Kong re-exports of pork to the Mainland. The reason for the change is because the 50 percent drop in imports of US pork (e.g., from 59,900 MT to 29,003 MT), as reported by China's 2004 import statistics, is not realistic. In fact, according to US trade sources, US exports to China have increased significantly. One plausible explanation for the dramatic decline is China's aggressive crackdown on smuggled meat and poultry products; as a result, a significant volume of pork reported as US pork in the 2004 is likely other countries' product labeled as US pork. To further justify post's change to the US export figure, China's reported pork import figure for 2004, 29,003 MT, approaches the US export figure, 25,181.

China's new meat regulation (No. 49) encourages pork trade towards the Mainland

On November 1, 2004 AQSIQ implemented a new meat import regulation, No. 49 Announcement (see GAIN report CH4016). The new measures, aimed to reduce imported meat smuggling, stipulate how authorities inspect and clear these products. One important provision is that all meat transshipped through Hong Kong must be pre-inspected and sealed by the China Hong Kong Inspection Company before entering the Mainland or bonded warehouses. According to the trade, this pre-inspection procedure lasts about 40 minutes.

The No. 49 Announcement also requires inner labeling to state both establishment number and product names. In response to FAS Beijing requests, AQSIQ agreed to give US packers a one-month grace period to enable trade of US pork products as long as they were shipped before December 1. AQSIQ also agreed to accept a loose inner labeling instead of a printed-on labeling on inner plastic bags. Finally, AQSIQ agreed to accept a single language (English) instead of a bilingual inner box label.

China's reported efforts to crackdown on smuggling have significantly impacted the trade picture. According to US export data during the first 11 months of 2004, the Chinese customs data only exaggerated 4,000 MT of US direct exports to China, a much smaller gap compared to 64,000 MT in 2003 and 34,000 MT in 2002. As a result, the difficulty of re-exporting pork through Hong Kong is having the Chinese Government's desired affect of shifting pork trade directly to the Mainland.

China's pork exports forecast to increase 12 percent in 2005

Post forecasts China's pork exports for 2005 will increase 12 percent from 399,000 MT to 455,000 MT due to stronger demand in destination markets. Hong Kong will continue to be

the largest destination market. China's year on year exports to Hong Kong in 2004 increased over 10 percent. Other import destination markets include North Korea, Russia, Japan, Singapore and Malaysia. North Korea has replaced Russia to become China's second largest export market due to Russia's import quota restriction.

Part of the driving factor could be the need in the destination markets to substitute their smaller imports of beef from North America. China's agricultural tax elimination, the short and economical transportation distances could make China's exports even more competitive.

National Swine Size of Farm and Slaughtered Pig for 2002

Slaughtered	No. of Farms	(%) Share	Total Slaughtered(1,000)	(%) Share
1~ 9	99,894,369	94.806	338,588	55.51
10~ 49	4,438,302	4.212	105,344	17.27
50~ 99	790,307	0.750	53,637	8.79
100~ 499	212,909	0.202	51,651	8.47
500~ 2999	27,495	0.026094	29,363	4.81
3000~ 9999	3,242	0.003077	16,432	2.69
10000~ 49999	862	0.000818	12,838	2.11
above 50000	28	0.000027	20,584	0.34
	105,367,514	100	609,914	100

National Swine Size of Farm and Slaughtered Pig for 2003

Slaughtered	No. of Farms	(%) Share	Total Slaughtered(1,000)	(%) Share
1~ 9	101,963,901	94.483	347,731	52.867
10~ 49	4,815,474	4.462	120,945	18.388
50~ 99	851,429	0.789	58,999	8.970
100~ 499	249,016	0.231	59,639	9.067
500~ 2999	33,844	0.031	36,477	5.546
3000~ 9999	3,388	0.003139	17,420	2.648
10000~ 49999	911	0.000844	14,181	2.156
above 50000	30	0.000028	2,358	0.359
	107,917,993	100	657,750	100

PSD-- Swine

PSD Table**Country****China, Peoples
Republic of****Commodity****Animal Numbers,
Swine**

(1000 HEAD)

	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2003		01/2004		01/2005	MM/YYYY
TOTAL Beginning Stocks	462915	462915	466017	466017	470410	469279	(1000 HEAD)
Sow Beginning Stocks	44550	44550	45350	45350	45800	46166	(1000 HEAD)
Production (Pig Crop)	597814	597814	608500	624181	619480	651384	(1000 HEAD)
Intra EC Imports	0	0	0	0	0	0	(1000 HEAD)
Total Imports	2	2	2	3	2	3	(1000 HEAD)
TOTAL Imports	2	2	2	3	2	3	(1000 HEAD)
TOTAL SUPPLY	1060731	1060731	1074519	1090201	1089892	1120666	(1000 HEAD)
Intra EC Exports	0	0	0	0	0	0	(1000 HEAD)
Total Exports	1887	1887	1800	1950	1800	1950	(1000 HEAD)
TOTAL Exports	1887	1887	1800	1950	1800	1950	(1000 HEAD)
Sow Slaughter	0	0	0	0	0	0	(1000 HEAD)
OTHER SLAUGHTER	592005	592005	601395	618058	609215	645252	(1000 HEAD)
Total Slaughter	592005	592005	601395	618058	609215	645252	(1000 HEAD)
Loss	822	822	914	914	900	900	(1000 HEAD)
Ending Inventories	466017	466017	470410	469279	477977	472564	(1000 HEAD)
TOTAL DISTRIBUTION	1060731	1060731	1074519	1090201	1089892	1120666	(1000 HEAD)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	1	(1000 HEAD)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 HEAD)

PSD--Pork

PSD Table**Country****China, Peoples
Republic of****Commodity****Meat, Swine**

(1000 MT CWE)(1000 HEAD)

	2003 USDA Official [Old]	Revised Post Estimate [New]	2004 USDA Official [Old]	Estimate Post Estimate [New]	2005 USDA Official [Old]	Forecast Post Estimate [New]	UOM MM/YYYY
Market Year Begin		01/2003		01/2004		01/2005	
Slaughter (Reference)	592005	592005	601395	618058	609215	645252	(1000 HEAD)
Beginning Stocks	0	0	0	0	0	0	(1000 MT CWE)
Production	45186	45186	47170	47350	47500	49675	(1000 MT CWE)
Intra EC Imports	0	0	0	0	0	0	(1000 MT CWE)
Total Imports	149	152	155	138	122	136	(1000 MT CWE)
TOTAL Imports	149	152	155	138	122	136	(1000 MT CWE)
TOTAL SUPPLY	45335	45338	47325	47488	47622	49811	(1000 MT CWE)
Intra EC Exports	0	0	0	0	0	0	(1000 MT CWE)
Total Exports	282	362	330	400	400	450	(1000 MT CWE)
TOTAL Exports	282	362	330	400	400	450	(1000 MT CWE)
Human Dom.	45053	44976	46995	47088	47188	49361	(1000 MT CWE)
Consumption							
Other Use, Losses	0	0	0	0	0	0	(1000 MT CWE)
TOTAL Dom.	45053	44976	46995	47088	47188	49361	(1000 MT CWE)
Consumption							
Ending Stocks	0	0	0	0	0	0	(1000 MT CWE)
TOTAL DISTRIBUTION	45335	45338	47325	47488	47588	49811	(1000 MT CWE)
Calendar Yr. Imp. from U.S.	78	78	45	45	45	45	(1000 MT CWE)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT CWE)

China Import Statistics								
UDG: Swine,								
Year To Date: January - November								
Partner Country	Unit	Quantity			% Share			% Change 2004/2003
		2002	2003	2004	2002	2003	2004	
World	NO	936	1,355	1,748	100	100	100	29
United States	NO	231	-	690	24.68	0	39.47	0
Denmark	NO	417	272	578	44.55	20.07	33.07	112.5
Canada	NO	-	1,083	480	0	79.93	27.46	-55.68
France	NO	288	-	-	30.77	0	0	0

China Import Statistics								
UDG: Swine,								
Year Ending: December								
Partner Country	Unit	Quantity			% Share			% Change 2003/2002
		2001	2002	2003	2001	2002	2003	
World	NO	1,256	1,163	1,797	100	100	100	54.51
Canada	NO	164	-	1,083	13.06	0	60.27	0
United States	NO	461	231	442	36.7	19.86	24.6	91.34
Denmark	NO	490	644	272	39.01	55.37	15.14	-57.76
France	NO	-	288	-	0	24.76	0	-100
Sweden	NO	141	-	-	11.23	0	0	0

China Import Statistics								
UDG: Pork,								
Year To Date: January - November								
Partner Country	Unit	Quantity			% Share			% Change 2004/2003
		2002	2003	2004	2002	2003	2004	
World	T	140,298	119,552	68,280	100	100	100	-42.89
United States	T	105,406	59,900	29,003	75.13	50.1	42.48	-51.58
Canada	T	33,813	29,729	22,465	24.1	24.87	32.9	-24.43
Denmark	T	797	29,857	16,684	0.57	24.97	24.43	-44.12
Other	T	282	67	126	0.2	0.06	0.18	200

China Import Statistics								
UDG: Pork,								
Year Ending: December								
Partner Country	Unit	Quantity			% Share			% Change 2003/2002
		2001	2002	2003	2001	2002	2003	
World	T	94,357	144,979	149,117	100	100	100	2.85
United States	T	39,560	108,220	77,642	41.93	74.65	52.07	-28.26
Denmark	T	17,733	1,471	37,505	18.79	1.01	25.15	2449.27
Canada	T	22,249	35,002	33,897	23.58	24.14	22.73	-3.16
Other		14,799	272	72	15.67	0.18	0.05	-72.22

World Trade Atlas
Product Group
Hong Kong Beef Re-Exports
to China
Quantity

January - November					% Change
Rank	Origin	- KG - 2002	- KG - 2003	- KG - 2004	- 04/03 -
0	The World-	9,226,134	7,909,884	3,694,551	-53.29
1	Brazil	1,328,476	904,893	1,193,171	31.86
2	New Zealand	382,489	538,091	1,019,848	89.53
3	India	235,880	603,348	308,652	-48.84
4	Ireland	1,176,034	757,285	244,224	-67.75
5	United States	5,442,198	3,978,733	238,959	-93.99
6	Canada	77,647	98,181	194,300	97.9
7	Argentina	-	507,536	159,270	-68.62
8	Iran	-	81,540	103,042	26.37
9	Indonesia	-	-	100,000	0
10	Germany, Fed Rep	151,146	56,585	53,813	-4.9
11	Australia	262,531	201,521	27,289	-86.46
12	Denmark	-	-	25,000	0
13	Other	169,733	182,171	26,983	-85.19%

World Trade Atlas
Product Group
Hong Kong Pork Re-Exports to China
Quantity

January - December					% Change
Rank	Origin	- KG - 2001	- KG - 2002	- KG - 2003	- 03/02 -
0	The World-	36,038,165	34,677,750	54,397,401	56.87
1	Germany, Fed Rep	8,658,581	11,430,707	15,507,839	35.67
2	Denmark	6,774,808	3,187,838	8,917,643	179.74
3	Canada	6,496,788	6,340,206	8,679,804	36.9
4	Spain	732,643	964,794	4,262,814	341.84
5	Brazil	1,396,468	3,067,793	3,608,435	17.62
6	United States	2,733,834	2,396,535	3,055,991	27.52
7	Netherlands	3,263,293	1,657,761	3,035,825	83.13
8	France	1,133,827	1,736,079	2,078,837	19.74
9	Belgium	-	-	1,550,052	0
10	Ireland	469,905	405,838	1,047,618	158.14
11	United Kingdom	374,715	674,581	763,891	13.24
12	Other	32,034,862	31,862,132	52,508,749	64.80%

China Export Statistics								
UDG: Swine,								
Year To Date: January - November								
Partner Country	Unit	Quantity			% Share			% Change 2004/2003
		2002	2003	2004	2002	2003	2004	
World	NO	1,717,179	1,692,053	1,795,843	100	100	100	6.13
Hong Kong	NO	1,604,718	1,581,403	1,686,374	93.45	93.46	93.9	6.64
Macau	NO	110,708	109,947	109,284	6.45	6.5	6.09	-0.6
Other	NO	1,753	703	185	0.11	0.04	0	-1

China Export Statistics								
UDG: Swine,								
Year Ending: December								
Partner Country	Unit	Quantity			% Share			% Change 2003/2002
		2001	2002	2003	2001	2002	2003	
World	NO	1,972,595	1,888,606	1,887,295	100	100	100	-0.07
Hong Kong	NO	1,837,537	1,766,326	1,764,935	93.15	93.53	93.52	-0.08
Macau	NO	133,097	120,489	121,600	6.75	6.38	6.44	0.92
Myanmar	NO	1,866	833	681	0.09	0.04	0.04	-18.25
Korea North	NO	65	958	55	0	0.05	0	-94.26
Other	NO	30	-	24	0	0	0	0

China Export Statistics								
UDG: Pork,								
Year To Date: January - November								
Partner Country	Unit	Quantity			% Share			% Change 2004/2003
		2002	2003	2004	2002	2003	2004	
World	T	214,872	272,015	366,223	100	100	100	34.63
Hong Kong	T	77,735	95,883	105,062	36.18	35.25	28.69	9.57
Korea North	T	8,678	39,314	75,919	4.04	14.45	20.73	93.11
Russia	T	68,904	63,524	64,117	32.07	23.35	17.51	0.93
Japan	T	12,653	22,201	46,190	5.89	8.16	12.61	108.06
Singapore	T	14,813	14,566	18,904	6.89	5.35	5.16	29.79
Malaysia	T	9,784	12,682	13,070	4.55	4.66	3.57	3.06
Moldova	T	-	2,426	8,458	0	0.89	2.31	248.71
Philippines	T	10,090	6,595	7,255	4.7	2.42	1.98	10.01
Ukraine	T	25	25	6,841	0.01	0.01	1.87	8
Macau	T	2,879	3,712	3,977	1.34	1.36	1.09	7.16
Albania	T	1,682	1,941	3,283	0.78	0.71	0.9	69.12
Indonesia	T	1,761	1,840	2,236	0.82	0.68	0.61	21.53
Korea South	T	321	1,122	1,847	0.15	0.41	0.5	64.59
Other	T	5,549	6,187	9,067	2.59	2.27	2.44	7.00

China Export Statistics								
UDG: Pork,								
Year Ending: December								
Partner Country	Unit	Quantity			% Share			% Change 2003/2002
		2001	2002	2003	2001	2002	2003	
World	T	171,541	236,213	305,137	100	100	100	29.18
Hong Kong	T	76,631	85,748	105,010	44.67	36.3	34.41	22.46
Russia	T	26,491	75,588	70,959	15.44	32	23.25	-6.12
Korea North	T	5,116	9,012	46,883	2.98	3.82	15.36	420.22
Japan	T	11,797	14,197	25,593	6.88	6.01	8.39	80.28
Singapore	T	19,112	16,345	16,489	11.14	6.92	5.4	0.88
Malaysia	T	10,196	10,983	14,225	5.94	4.65	4.66	29.52
Philippines	T	6,418	10,983	7,003	3.74	4.65	2.3	-36.24
Macau	T	3,097	3,257	4,157	1.81	1.38	1.36	27.63
Moldova	T	64	-	2,451	0.04	0	0.8	0
Albania	T	1,480	1,832	2,266	0.86	0.78	0.74	23.69
Indonesia	T	1,600	1,950	2,027	0.93	0.83	0.66	3.97
Korea South	T	309	372	1,246	0.18	0.16	0.41	235.03
Lebanon	T	594	911	736	0.35	0.39	0.24	-19.16
Other	T	8,639	5,035	6,091	5.01	2.09	1.96	-6.22%

CHINA'S RETAIL HOG PRICES ON AVERAGE (2002 - 2004)

(RMB/KG, USD 1 = 8.27)

	2002	2003	2004	% Change 2004/03
January	6.26	6.11	7.58	24.06%
February	6.26	5.83	7.57	29.85%
March	5.99	5.83	7.84	34.48%
April	5.58	5.74	8.24	43.55%
May	5.54	5.59	8.27	47.94%
June	5.57	5.75	8.64	50.26%
July	5.57	6.03	8.87	47.10%
August	5.73	6.31	9.24	46.43%
September	5.85	6.88	9.59	39.39%
October	5.91	6.94	9.41	35.59%
November	6.02	7.53	8.87	17.80%
December	6.08	7.54	8.86	17.51%

Source: The Ministry of Agriculture

CHINA'S RETAIL PORK PRICES ON AVERAGE

(RMB/KG, USD 1=8.27)

	2002	2003	2004	% Change 2004/03
January	11.00	10.50	12.44	18.48%
February	11.00	10.50	12.30	17.14%
March	10.33	10.04	12.65	26.00%
April	9.77	9.92	13.07	31.75%
May	9.76	9.68	13.16	35.95%
June	9.97	9.86	13.73	39.25%
July	9.74	10.15	14.10	38.92%
August	10.01	8.22	14.72	79.08%
September	10.11	11.03	15.21	37.90%
October	10.18	11.56	15.08	30.45%
November	10.29	12.41	14.48	16.68%
December	10.26	12.43	14.24	14.56%

Source: The Ministry of Agriculture

CHINA'S RETAIL PIGLET PRICES ON AVERAGE (2002 - 2004)

(RMB/KG, USD 1 = 8.27)

	2002	2003	2004	% Change 2004/03
January	8.70	7.75	9.36	20.77%
February	8.70	7.75	9.89	27.61%
March	8.95	7.96	10.98	37.94%
April	7.88	7.98	11.78	47.62%
May	7.57	7.60	11.83	55.66%
June	8.04	7.76	12.77	64.56%
July	7.47	7.98	13.49	69.05%
August	7.61	8.22	14.60	77.62%
September	7.73	10.45	15.75	50.72%
October	7.83	8.95	15.40	72.07%
November	7.79	9.25	14.13	52.76%
December	7.69	9.14	13.61	48.91%

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Source: The Ministry of Agriculture